

THE CITY OF GRENOLA, KANSAS

AUDIT REPORT

December 31, 2011

THE CITY OF GRENOLA, KANSAS

December 31, 2011

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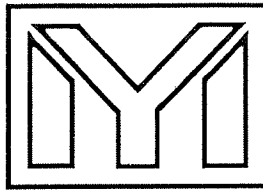
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For the Year Ended December 31, 2011

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YERKES & MICHELS, CPA, LLC

CERTIFIED PUBLIC ACCOUNTANTS

John D. Carroll, CPA
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American Institute of Certified Public Accountants
Kansas Society of Certified Public Accountants
An Independent C.P.A. Firm

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor
and Commissioners
The City of Grenola, Kansas
P. O. Box 130
Grenola, KS 67346

We have audited the accompanying statutory basis financial statements of the individual funds of The City of Grenola, Kansas, as of and for the year ended December 31, 2011 as listed in the table of contents. These statutory basis financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the *Kansas Municipal Audit Guide*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1C, The City of Grenola, Kansas prepared these statutory basis financial statements using accounting practices prescribed by the State of Kansas to demonstrate compliance with the cash basis and budget laws of the State of Kansas, which practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the differences between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the statutory basis financial statements referred to in the first paragraph do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of The City of Grenola, Kansas, as of December 31, 2011, or the changes in its financial position, or, where applicable, its cash flows for the year then ended. Further, The City of Grenola, Kansas has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Also, in our opinion, the statutory basis financial statements referred to in the first paragraph present fairly, in all material respects, the cash and unencumbered cash balances of the individual funds of The City of Grenola, Kansas, as of December 31, 2011, and their respective cash receipts, expenditures, and budgetary results for such funds for the year then ended on the basis of accounting described in Note 1C.


YERKES & MICHELS, CPA, LLC

January 10, 2013

THE CITY OF GRENOLA, KANSAS

SUMMARY OF CASH RECEIPTS, EXPENDITURES
AND UNENCUMBERED CASH

For the Year Ended December 31, 2011

GOVERNMENTAL TYPE FUNDS	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Outstanding Encumbrances and Accounts Payable	Ending Cash Balance	
General	\$ 77,718.40	\$ -	\$ 97,190.77	\$ 79,734.47	\$ 95,174.70	\$ 6,794.02	\$ 101,968.72	General
Special Revenue								
Special Street & Highway Fund	15,297.18	-	5,599.65	3,958.11	16,938.72		16,938.72	Special Revenue
Library	-	-	3,172.20	3,172.20	-		-	Special Street & Highway Fund
Debt Service Fund								Library
Bond and Interest	-	-	-	-	-		-	Debt Service Fund
Proprietary Type Funds								Bond and Interest
Water and Sewer Fund	7,772.90	-	57,010.08	66,644.74	(1,861.76)	3,050.00	1,188.24	Proprietary Type Funds
Solid Waste Fund	(1,231.31)	-	15,054.00	13,792.00	30.69	-	30.69	Water and Sewer Fund
TOTAL	\$ 99,557.17	\$ -	\$ 178,026.70	\$ 167,301.52	\$ 110,282.35	\$ 9,844.02	\$ 120,126.37	Solid Waste Fund

COMPOSITION OF CASH

Howard State Bank - Howard, Kansas	
Checking Account No. 7810020	\$ 67,953.01
Certificate of Deposit No. 7128	11,058.13
Certificate of Deposit No. 7096	13,804.88
Certificate of Deposit No. 7097	12,912.57
Certificate of Deposit No. 7098	14,355.28
Change Box	42.50
TOTAL PRIMARY GOVERNMENT	\$ 120,126.37

THE CITY OF GRENOLA, KANSAS

SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET

For the Year Ended December 31, 2011

	Certified <u>Budget</u>	Adjustment For Qualifying <u>Budget Credits</u>	Total Budget for <u>Comparison</u>	Expenditures Chargeable to <u>Current Year</u>	Variance Over <u>(Under)</u>
<u>GOVERNMENTAL TYPE FUNDS</u>					
General	\$ 103,182.00	\$ -	\$ 103,182.00	\$ 79,734.47	(23,447.53)
Special Revenue					
Special Street & Highway Fund	11,529.00	-	11,529.00	3,958.11	(7,570.89)
Library Fund	3,350.00	-	3,350.00	3,172.20	(177.80)
Proprietary Type Funds					
Water and Sewer Fund	71,881.00	-	71,881.00	66,644.74	(5,236.26)
Solid Waste Fund	18,000.00	-	18,000.00	13,792.00	(4,208.00)

THE CITY OF GRENOLA, KANSAS

STATEMENT OF CASH RECEIPTS AND EXPENDITURES-ACTUAL AND BUDGET

For the Year Ended December 31, 2011

(with comparative actual totals for the year ended December 31, 2010)

GENERAL FUND

	Prior Year <u>Actual</u>	<u>CURRENT YEAR</u>		Variance Over (Under)
		<u>Actual</u>	<u>Budget</u>	
CASH RECEIPTS				
Taxes	\$ 57,265.59	\$ 71,850.86	\$ 73,989.00	\$ (2,138.14)
Local Sales Tax	9,213.35	12,897.09	11,000.00	1,897.09
Franchise Tax	8,700.80	9,285.21	9,000.00	285.21
Interest on Idle Funds	1,517.99	484.65	300.00	184.65
Miscellaneous	3,406.27	1,206.69	2,000.00	(793.31)
Service Fees	-	1,466.27	1,000.00	466.27
Transfer	2,921.06	-	-	-
TOTAL CASH RECEIPTS	<u>\$ 83,025.06</u>	<u>\$ 97,190.77</u>	<u>\$ 97,289.00</u>	<u>\$ (98.23)</u>
EXPENDITURES				
Salaries & Wages	\$ 14,247.38	\$ 22,197.74	\$ 20,000.00	\$ 2,197.74
Employee Benefits	9,485.26	9,710.14	14,000.00	(4,289.86)
Utilities	10,888.15	9,399.25	13,000.00	(3,600.75)
Maintenance & Supplies	14,712.69	15,228.50	20,000.00	(4,771.50)
Fire Department	3,975.49	4,000.00	4,000.00	-
Health Insurance	6,221.16	6,466.87	7,500.00	(1,033.13)
General Insurance	6,229.00	6,180.00	6,500.00	(320.00)
Workmans Comp.	2,383.00	1,242.00	1,500.00	(258.00)
Professional Fees	4,288.52	4,093.36	4,000.00	93.36
Park Equipment	805.22	-	1,482.00	(1,482.00)
Miscellaneous	309.69	1,216.61	1,200.00	16.61
Transfer	-	-	10,000.00	(10,000.00)
TOTAL EXPENDITURES	<u>\$ 73,545.56</u>	<u>\$ 79,734.47</u>	<u>\$ 103,182.00</u>	<u>\$ (23,447.53)</u>
RECEIPTS OVER (UNDER) EXPENDITURES	\$ 9,479.50	\$ 17,456.30		
UNENCUMBERED CASH, BEGINNING	<u>68,238.90</u>	<u>77,718.40</u>		
UNENCUMBERED CASH, ENDING	<u>\$ 77,718.40</u>	<u>\$ 95,174.70</u>		

THE CITY OF GRENOLA, KANSAS

STATEMENT OF CASH RECEIPTS AND EXPENDITURES-ACTUAL AND BUDGET

For the Year Ended December 31, 2011

(with comparative actual totals for the year ended December 31, 2010)

SPECIAL STREET AND HIGHWAY FUND

	Prior Year <u>Actual</u>	CURRENT YEAR		Variance Over (Under)
		<u>Actual</u>	<u>Budget</u>	
CASH RECEIPTS				
State of Kansas	\$ 5,743.35	\$ 5,599.65	\$ 5,800.00	\$ (200.35)
Federal Grant	3,310.20	-		
State Grant	441.36	-		
Miscellaneous	-	-	-	-
TOTAL CASH RECEIPTS	<u>\$ 9,494.91</u>	<u>\$ 5,599.65</u>	<u>\$ 5,800.00</u>	<u>\$ (200.35)</u>
EXPENDITURES				
Street Repairs & Maintenance	\$ 1,887.45	\$ 3,958.11	\$ 11,529.00	\$ (7,570.89)
TOTAL EXPENDITURES	<u>\$ 1,887.45</u>	<u>\$ 3,958.11</u>	<u>\$ 11,529.00</u>	<u>\$ (7,570.89)</u>
RECEIPTS OVER (UNDER) EXPENDITURES	\$ 7,607.46	\$ 1,641.54		
UNENCUMBERED CASH, BEGINNING	<u>7,689.72</u>	<u>15,297.18</u>		
UNENCUMBERED CASH, ENDING	<u>\$ 15,297.18</u>	<u>\$ 16,938.72</u>		

THE CITY OF GRENOLA, KANSAS

STATEMENT OF CASH RECEIPTS AND EXPENDITURES-ACTUAL AND BUDGET

For the Year Ended December 31, 2011

(with comparative actual totals for the year ended December 31, 2010)

LIBRARY FUND

	Prior Year <u>Actual</u>	<u>CURRENT YEAR</u>		Variance Over (Under)
		<u>Actual</u>	<u>Budget</u>	
CASH RECEIPTS				
Taxes	\$ 3,163.35	\$ 3,172.20	\$ 3,325.00	\$ (152.80)
State of Kansas	121.00	-	-	-
TOTAL CASH RECEIPTS	<u>\$ 3,284.35</u>	<u>\$ 3,172.20</u>	<u>\$ 3,325.00</u>	<u>\$ (152.80)</u>
EXPENDITURES				
Appropriations	<u>\$ 3,284.35</u>	<u>\$ 3,172.20</u>	<u>\$ 3,350.00</u>	<u>\$ (177.80)</u>
TOTAL EXPENDITURES	<u>\$ 3,284.35</u>	<u>\$ 3,172.20</u>	<u>\$ 3,350.00</u>	<u>\$ (177.80)</u>
RECEIPTS OVER (UNDER) EXPENDITURES	\$ -	\$ -		
UNENCUMBERED CASH, BEGINNING	-	-		
UNENCUMBERED CASH, ENDING	<u>\$ -</u>	<u>\$ -</u>		

THE CITY OF GRENOLA, KANSAS

STATEMENT OF CASH RECEIPTS AND EXPENDITURES-ACTUAL AND BUDGET

For the Year Ended December 31, 2011

(with comparative actual totals for the year ended December 31, 2010)

BOND AND INTEREST FUND

	Prior Year <u>Actual</u>	<u>CURRENT YEAR</u>		Variance Over (Under)
		<u>Actual</u>	<u>Budget</u>	
CASH RECEIPTS				
Taxes	\$ 2,921.06	\$ -	\$ -	\$ -
TOTAL CASH RECEIPTS	\$ 2,921.06	\$ -	\$ -	\$ -
EXPENDITURES				
Principal	\$ -	\$ -	\$ -	\$ -
Interest	-	-	-	-
Transfer	2,921.06	-	-	-
TOTAL EXPENDITURES	\$ 2,921.06	\$ -	\$ -	\$ -
RECEIPTS OVER (UNDER) EXPENDITURES	\$ -	\$ -		
UNENCUMBERED CASH, BEGINNING	-	-		
UNENCUMBERED CASH, ENDING	\$ -	\$ -		

THE CITY OF GRENOLA, KANSAS

STATEMENT OF CASH RECEIPTS AND EXPENDITURES-ACTUAL AND BUDGET

For the Year Ended December 31, 2011

(with comparative actual totals for the year ended December 31, 2010)

WATER AND SEWER FUND

	Prior Year <u>Actual</u>	CURRENT YEAR		Variance Over (Under)
		<u>Actual</u>	<u>Budget</u>	
CASH RECEIPTS				
Water Sales	\$ 38,603.53	\$ 39,348.64	\$ -	\$ 39,348.64
Sewer	13,100.00	12,840.00	-	12,840.00
Charges to Customers			58,000.00	(58,000.00)
Other Utility Revenue	140.00	3,575.74		3,575.74
Miscellaneous	64.10	1,245.70	1,000.00	245.70
TOTAL CASH RECEIPTS	<u>\$ 51,907.63</u>	<u>\$ 57,010.08</u>	<u>\$ 59,000.00</u>	<u>\$ (1,989.92)</u>
EXPENDITURES				
Salaries	\$ 14,745.03	\$ 10,249.50	\$ 18,000.00	\$ (7,750.50)
Operations	36,138.29	19,795.24	16,781.00	3,014.24
Water Purchases		36,600.00	36,600.00	-
Miscellaneous	-	-	500.00	(500.00)
TOTAL EXPENDITURES	<u>\$ 50,883.32</u>	<u>\$ 66,644.74</u>	<u>\$ 71,881.00</u>	<u>\$ (5,236.26)</u>
RECEIPTS OVER (UNDER) EXPENDITURES	\$ 1,024.31	\$ (9,634.66)		
UNENCUMBERED CASH, BEGINNING	<u>6,748.59</u>	<u>7,772.90</u>		
UNENCUMBERED CASH, ENDING	<u>\$ 7,772.90</u>	<u>\$ (1,861.76)</u>		

THE CITY OF GRENOLA, KANSAS

STATEMENT OF CASH RECEIPTS AND EXPENDITURES-ACTUAL AND BUDGET

For the Year Ended December 31, 2011

(with comparative actual totals for the year ended December 31, 2010)

SOLID WASTE FUND

	Prior Year <u>Actual</u>	CURRENT YEAR		Variance Over (Under)
		<u>Actual</u>	<u>Budget</u>	
CASH RECEIPTS				
Collections	\$ 15,358.00	\$ 15,054.00	\$ 18,000.00	\$ (2,946.00)
TOTAL CASH RECEIPTS	\$ 15,358.00	\$ 15,054.00	\$ 18,000.00	\$ (2,946.00)
EXPENDITURES				
Contract Services	\$ 16,586.00	\$ 13,792.00	\$ 18,000.00	\$ (4,208.00)
TOTAL EXPENDITURES	\$ 16,586.00	\$ 13,792.00	\$ 18,000.00	\$ (4,208.00)
RECEIPTS OVER (UNDER) EXPENDITURES	\$ (1,228.00)	\$ 1,262.00		
UNENCUMBERED CASH, BEGINNING	(3.31)	(1,231.31)		
UNENCUMBERED CASH, ENDING	\$ (1,231.31)	\$ 30.69		

THE CITY OF GRENOLA, KANSAS
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1A. FINANCIAL REPORTING ENTITY

The City of Grenola is a municipal corporation governed by an elected six-member council. The administrative staff consists of a mayor and city clerk, who serve the citizens of the City of Grenola. In evaluating how to define the government for financial reporting purposes, management has considered all potential component units.

1B. REIMBURSEMENTS

The City of Grenola, Kansas records reimbursable expenditures in the fund that makes the disbursement and records reimbursements as revenue to the fund. For purposes of budgetary comparisons, the expenditures are properly offset by the reimbursements.

1C. BASIS OF PRESENTATION AND BASIS OF ACCOUNTING

The *Statutory Basis of Accounting*, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure would be charged in the fund from which the transfer is made.

The municipality has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the City to use the statutory basis of accounting for 2011.

The accounts of the reporting entity are organized into funds, each of which is considered to be separate accounting entities.

A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

THE CITY OF GRENOLA, KANSAS
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

The following types of funds comprise the financial activities of The City of Grenola, Kansas, for the year 2011:

GOVERNMENTAL FUNDS

General Fund - to account for all unrestricted resources except those required to be accounted for in another fund.

Special Revenue Funds - to account for the proceeds of specific revenue sources (other than special assessments or major capital projects) that are restricted by law or administrative action to expenditure for specified purposes.

PROPRIETARY FUNDS

Enterprise Funds - to account for operations that are financed and operated in a manner similar to private business enterprises--where the stated intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges - or where periodic determination of revenues earned, expenses incurred, and/or net income is deemed appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

1D. DEPARTURE FROM ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA

The basis of accounting described in Note 1C above results in a financial statement presentation, which shows cash receipts, expenditures, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expense, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balance are not presented. Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with generally accepted accounting principles. Capital assets that account for the land, buildings, and equipment owned by the City are not presented

THE CITY OF GRENOLA, KANSAS
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

in the financial statements. Also, long-term debt such as general obligation bonds, revenue bonds, capital leases, temporary notes, and compensated absences are not presented in the financial statements.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

2A. BUDGETARY INFORMATION

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), debt service funds, and enterprise funds. Although directory rather than mandatory, the statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1st.
2. Publication in local newspaper on or before August 5th of the proposed budget and notice of public hearing on the budget.
3. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication the hearing may be held and the governing body may amend the budget at that time. There were no budget amendments for 2011.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the statutory basis of accounting, in which, revenues are recognized when cash is received and expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or

THE CITY OF GRENOLA, KANSAS
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (cont'd.)

contract. Any unused budgeted expenditure authority lapses at year-end. Spending in funds which are not subject to the legal annual operating budget requirement is controlled by internal spending limits established by the governing body.

2B. COMPLIANCE WITH FINANCE-RELATED LEGAL AND CONTRACTUAL MATTERS

The City had a negative unencumbered cash balance on January 1, 2011 of \$1,231.31 in the Solid Waste Fund and negative balance of \$1,861.76 on December 31, 2011 in the Water and Sewer Fund. This is a violation of K.S.A. 10-1113.

Management is not aware of any other violations of compliance with Kansas Statutes or violations of other finance related legal matters.

NOTE 3 - DEPOSITS AND INVESTMENTS

At December 31, 2011, the City had no investments.

K.S.A. 9-1401 establishes the depositories which may be used by the City. The statute requires banks eligible to hold the City's funds have a main or branch bank in the county in which the City is located or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The City has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the City's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. Government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The City has no investment policy that would further limit its investment choices.

Concentration of credit risk. State statutes place no limit on the amount the City may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

THE CITY OF GRENOLA, KANSAS
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 3 – DEPOSITS AND INVESTMENTS (cont'd.)

Custodial credit risk – deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require the City's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. All deposits were legally secured at December 31, 2011.

The carrying amount of the City's deposits was \$ 120,083.87 at December 31, 2011. The bank balance was \$ 120,396.05 at December 31, 2011. The difference between the carrying amount and the bank balance is outstanding checks and deposits in transit. The bank balance was held by one bank, resulting in a concentration of credit risk. The bank balance was covered by FDIC insurance at December 31, 2011.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

NOTE 4 - DEFINED BENEFIT PENSION PLAN

Plan description. The City contributes to the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, *et seq.* KPERS provides retirement benefits, life insurance, disability income benefits and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas Avenue, Suite 100; Topeka, Kansas 66603-3803) or by calling 1-888-275-5737.

Funding Policy. K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% of covered salary. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rate established for calendar year 2011 was 7.74%. The City employer contributions to KPERS for the years ending December 31, 2011, 2010, and 2009 were \$2,529.42, 2,182.97 and \$1,079.50 respectively, equal to the required contributions for each year as set forth by the legislature.

THE CITY OF GRENOLA, KANSAS
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 6 - COMPENSATED ABSENCES

City employees with one year or more of service are eligible for vacation benefits varying from five (5) days to ten (10) days. The city does not have a formal policy for unused vacation benefits. As of December 31, 2011, all employees had used all vacation time available.

The liability for accrued vacation and sick pay is not reflected on the financial statements. Neither the actual or estimated amount of the liability was available at December 31, 2011. The cost of vacation pay is recognized as expenditures when paid.

NOTE 7 – OTHER POST EMPLOYMENT BENEFITS

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the City makes health care benefits available to former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. There is no cost to the City under this program.

NOTE 8 - INTERFUND TRANSFERS

No Operating Transfers were made in 2011.

NOTE 9 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the City carries commercial insurance. Settlements of claims have not exceeded coverage during the past three fiscal years.

NOTE 10 – USE OF ESTIMATES

The preparation of statutory basis financial statements requires management to make estimates and assumptions that affect the reported amounts of expenditures during the audit period, encumbrances outstanding, and disclosure of contingencies at the end of the audit period. Actual results could differ from the estimates.